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RUCNMEM/EU MEMBER STATES COLLECTIVE  
RUEHAK/AMEMBASSY ANKARA 5697  
RUEHBJ/AMEMBASSY BEIJING 3412  
RUEHKO/AMEMBASSY TOKYO 3276  
RUEHIT/AMCONSUL ISTANBUL 3940  
RUEKJCS/JOINT STAFF WASHDC  
RUEAIIA/CIA WASHDC  
RUCPDOG/DEPT OF COMMERCE WASHDC  
RHEFDIA/DIA WASHDC  
RHEBAAA/DEPT OF ENERGY WASHDC  
RHEHNSC/NSC WASHDC  
RUEATRS/DEPT OF TREASURY WASHDC  
RUEKJCS/SECDEF WASHINGTON DC  
RUCNDT/USMISSION USUN NEW YORK 1161  
RUEHVEN/USMISSION USOSCE 3923

C O N F I D E N T I A L SECTION 01 OF 02 ASHGABAT 001206

SIPDIS

STATE FOR SCA/CEN; EEB; NEA/IR  
COMMERCE FOR EHOUSE

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SUBJECT: TURKMENISTAN: EBRD ASSERTS "HONEYMOON STAGE" WITH  
PRESIDENT OVER

REF: ASHGABAT 387

Classified By: Charge Sylvia Reed Curran for reasons 1.4 (b) and (d).

11. (C) SUMMARY. The European Bank for Reconstruction and Development (EBRD) in Turkmenistan continues to seek out projects and proactive Turkmen business people who are willing to question Turkmen policies that hinder economic and commercial growth. Soviet-style government control over the country's financial institutions and laws that prevent anyone besides the government from owning land continue to impede EBRD's mission in Turkmenistan. Restrictive policies and attitudes toward commercial enterprises have also stymied foreign investment. EBRD currently finances only 8 Turkmen projects, with its largest loan totaling only \$7 million, compared to loans in other former Soviet Republics which often exceed a hundred million dollars per project. END SUMMARY.

FEW LARGE-SCALE REFORMS TO BE SEEN

12. (C) Head of EBRD's Resident Office in Ashgabat Neil McKain met with Economic Officer on September 22. McKain recounted that Berdimuhamedov's ability to unify the country's two currency exchange rates "almost overnight" was a much-needed economic reform that showcased the President's willingness to "financially affect" high-level government officials, who were illegally benefiting from currency schemes when Turkmenistan had two exchange rates. As a result, he added, many international financial institutions "jumped on the Turkmenistan bandwagon," mainly because they thought President Berdimuhamedov was serious about cracking down on corruption. Unfortunately, he added, real economic reforms needed to spur foreign direct investment are yet to be seen, noting the initial "honeymoon stage" when would-be foreign investors flocked to the country in 2006 had now come to an end. Moreover, allowing companies to order and pay for raw materials outside of Turkmenistan, a simplified tax code, and serious land reform were critical reforms to which the Turkmen government has shown little interest.

## OWNING LAND NOT AN OPTION

13. (C) EBRD's McKain stated that providing Turkmen the opportunity to own land was one of the most critical steps the government needed to take, if it was serious about working with international financing organizations like EBRD.

(NOTE: Turkmen law does not allow for privately owned land, except for the case of about a hundred farmers who were granted titles to land by former President Niyazov for exceptional cotton harvests. These farmers, however, are not allowed to sell this land, but they may bequeath it to their children. END NOTE.) McKain added that although the GOTX allows for land to be rented for commercial use, the maximum lease is 65 years, according to the Turkmen Constitution. Previous laws allowed for 100-year leases. He expressed EBRD's difficulty in financing projects, when potential clients are unable to use land as an asset or collateral. Nevertheless, he maintained that EBRD had some limited success and would continue to seek opportunities to finance projects that would aid in the development of Turkmenistan's fledgling commercial sector.

## TURKMENISTAN STILL IN THE "PERESTROIKA" STAGE

14. (C) McKain who has worked extensively in the former Soviet Union, opined that Turkmenistan, of all the former republics, was still the most "Soviet." He compared the GOTX's aversion to foreign investment and its "need to regulate everything" to Russia during Perestroika, stressing that the current Turkmen definition of capitalism is an extreme Soviet

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representation of the word, in that the GOTX sees capitalism as equal to an eventual loss of government control. McKain noted that government control of the banking sector is particularly problematic, as small and medium-sized enterprises (SME) with little start-up capital have great difficulty getting loans from Turkmen banks, especially if government officials deem the projects to be against government policies. SME loans available at Turkmen banks charge a mere 5 percent interest (EBRD loans are closer to 8 percent), but require so much collateral that they are cost prohibitive for private Turkmen. He added that the Turkmen bank Senagat Bank, which prides itself as a private bank with shareholders, is still run by the government. McKain recounted that in 2008 he watched the President of Senagat bank receive a new, black, Mercedes S-class from the President of Turkmenistan, as all heads of Turkmen state-owned banks did, illustrating that the government still viewed Senagat bank as a state-owned bank.

15. (C) The EBRD Ashgabat Resident Office Head described EBRD's recent attempts to provide technical cooperation grants worth \$2.5 million each to Senagat Bank and Turkmenistanbank. He noted that the grants were in essence "free money," but the GOTX has blocked attempts to finalize the grants, stating that the GOTX feared it might lose some control over its banks if it partnered with a large, international organization like EBRD. He added that EBRD and others have called for the GOTX to pursue international ratings like Moody's and Fitch. However, to date, "the GOTX will have none of it."

## CUSTOMERS FEW AND FAR BETWEEN

16. (C) According to McKain, EBRD has had no new investment projects in Turkmenistan in the last 6 years. He did express hopes that EBRD would finance four new projects by the end of the year, bringing EBRD's total number of projects in the country up to 13. McKain told us that EBRD's largest project would be a \$7 million investment, which compared to other EBRD projects in Russia or Kazakhstan, was "peanuts." He cited the EBRD-financed Turkmenbashi Jeans factory located 13 km west of Ashgabat, as one of a handful of successful projects that started small and continues to grow. McKain

stressed that although EBRD has had less success than it would like, a core of savvy Turkmen business people, which understands the importance of foreign investment in strengthening the Turkmen economy and providing greater opportunities for Turkmen SMEs, is growing.

17. (C) COMMENT. Although EBRD has recently had some increased interest from Turkmen enterprises, strict government control over its commercial sector has made large-scale EBRD investment in Turkmenistan a thing of the future. When President Berdimuhamedov officially assumed office in early 2007, many expected large-scale reforms that would attract much-needed foreign investment. Unfortunately, EBRD has struggled to give grant money to Turkmen enterprises, as the government remains leery of any foreign involvement. If Berdimuhamedov really wants to be seen as an international player, he will need to endorse critical economic reforms that will convince organizations like EBRD that the "honeymoon is suspended, but not over." END COMMENT.  
CURRAN